

COUNTY OF ORANGE
AUDIT OVERSIGHT COMMITTEE

MEETING MINUTES
Thursday, February 26, 2004, 1:30 p.m.

The Audit Oversight Committee of the County of Orange met on February 26, 2004 at 1:30 p.m. in the Hall of Administration, Building, 5th Floor, Conference Room B, Santa Ana, California.

Members Present/Absence Noted:

Present:	Mr. James Ruth, CEO Mr. David Sundstrom, Auditor-Controller Dr. Dave Carlson, Public Member Supervisor Jim Silva, Vice-Chair, Board of Supervisors
Absent:	Supervisor Tom Wilson, Chair Board of Supervisors Mr. John Moorlach, Treasurer-Tax Collector, Ex-Officio Member

1. Call to Order: (David Sundstrom, Chairman, Audit Oversight Committee)

Mr. Sundstrom called to order the meeting on February 26, 2004 at 1:30 p.m. Mr. Sundstrom asked for roll call before proceeding with the agenda.

Committee Members:

Mr. Ruth, Mr. Sundstrom, Dr. Carlson, Supervisor Silva

Guests:

Internal Audit Staff: Dr. Peter Hughes, Eli Littner, Michael Goodwin, Autumn McKinney, Alan Marcum, Renee Aragon, Auditor-Controller Staff: John Nakane, Claire Moynahan, Nannette Nakada; Macias, Gini and Company: Jean Horimoto, James Godsey; Third District Staff: Patty Gorcyca, Second District Staff: Don Hughes, Public Visitor: Francheska Hughes

2. Approval of Minutes from December 3, 2003 (David Sundstrom, Chairman, Audit Oversight Committee)

Recommended Action: Approve

Supervisor Silva abstained from this vote because he was absent at the 12-2-03 meeting. Approved as recommended.

3. Macias, Gini and Company, Required Communications (James Godsey, Partner, Macias, Gini & Company)

Recommended Action: Discussion

Mr. Godsey discussed Independent Audit's Report on the Basic Financial Statements as required communication to the Audit Oversight Committee and to provide opportunity for the Committee to ask questions. Mr. Godsey stated that the statement of their responsibility under the audit standards requires reasonable, not absolute assurance of the financial statements.

Mr. Godsey noted the Other Documents section regarding the situation of critical bond issues for San Diego County. He stated that MGC opinion was included in bond offering statements for assurances to the AOC, but noted that the bond offering statements were not audited. The reference was used to point out the critical nature of communication and the importance of management interpretations of understandings. Mr. Godsey stated that Orange County organization had checks and balances in place including Internal Audit, controllership and the executive office with good communication and disclosures. Mr. Godsey noted the estimates were critical when preparing the financial statements and Orange County includes the landfills and litigation. MGC feels comfortable with the adjustments and the estimates.

There were no findings or reportable conditions in the Single Audit. The Single Audit is the mandatory review of federal programs. The total federal funds al Stated \$613,990,000 of expenditures of federal financial assistance and programs.

The draft Management Letter was pending a response from IT. There were no reportable conditions or material weakness in the internal controls revealed. However four items were noted and most were already corrected as part of last year's audit. The IT items were controls on password protections.

Mr. Godsey noted future audit matters under Statement on Auditing Standards (SAS) No. 99, Consideration of Fraud in a Financial Statement Audit. The standard was new considerations of fraud in financial statements. He stated Orange County had prepared the organization to address and deal with and identify fraud. Additional test work would be performed on accounting systems to identify higher risk analysis and seek for any weaknesses.

4. Internal Audit Department Peer Review (Dr. Peter Hughes, Director, Internal Audit)
Recommended Action: Determine Vendor, Report Results at next AOC meeting.

Dr. Hughes informed the committee the peer review is required every three years to remain compliant with professional standards. Dr. Hughes stated the last review was done February 2001. He explained that there was a current contract with Jefferson Wells that was on hold until after AOC action. Dr. Hughes stated he was supportive of the AOC's involvement to select the current vendor or a different vendor.

Mr. Ruth asked how Jefferson Wells was selected. Dr. Hughes stated Jefferson Wells International was selected because of capability, availability and cost. Mr. Sundstrom had asked if Jefferson Wells had performed any audits for the Internal Audit. Mr. Littner stated Jefferson Wells performed the first peer review in 2001 and was also involved in the HR Reclassification Review. Mr. Sundstrom noted that the AOC Bylaws states a firm should be selected that should not be affiliated with Internal Audit. He added that he believed it disqualified Jefferson Wells from conducting the peer review. Dr. Hughes said he believed the international status of the firm allowed them to conduct the review but was deferent to Bylaws. Mr. Sundstrom read the reference and there was discussion of the meaning affiliated. Dr. Hughes stated the vendor list for the County was not an exhaustive list. Dr. Hughes said report had spent \$9,000. He added that fieldwork was completed and their feedback was valuable. Mr. Ruth asked about the timeline and Dr. Hughes stated June 1, 2004.

Mr. Sundstrom motioned for a subcommittee to be appointed to solicit the work, return to the subcommittee to determine a scope and approve the scope of work and then get feed back of the other committee members. Mr. Ruth seconded the motion and the motion passed 4 to 0. Mr. Sundstrom and Dr. Carlson were appointed to the subcommittee.

5. **Audit of Treasury Investment Compliance for the Two Years Ending December 31, 2002; Closed Item – Investment Policy Statement (Dr. Peter Hughes, Director, Internal Audit Department)**
Recommended Action: Discussion Only

Dr. Hughes reported on the closure of the open item on the interpretation of the County Investment Policy Statement. He informed the committee that County Counsel provided an opinion to resolve the item and the item was closed. It was noted that a correspondence was sent to the Treasurer Tax Collector about the issue.

Mr. Sundstrom stated he met with Treasurer Tax-Collector about a budgetary issue concerning the SB866 audit. He was informed the CEO/Budget staff was seeking to recover the entire cost of the audit from the Treasurer under an administrative fee. Mr. Sundstrom stated the TOC would reconsider the audit and the possibility of outsourcing the review because of cost.

6. **2003 Year End Status Report – Period 01-01-03 to 12-31-03**
Recommended Action: Receive and File

Dr. Hughes stated the audit plan was not a stretch goal, but rather a commitment to provide audit coverage countywide. The attestation services and mandates audits were where IAD rendered opinions on the presentation of financial statements. The IT audit area was allocated more time and continued to be a critical focus area because system upgrades and implementations. The departmental control reviews of internal controls were the focus on the major countywide business operations. The CSA program was a successful process and departments had asked for more to be done.

Approve as recommended.

7. **Status Report #1 – Period 01-01-04 to 02-05-04 (Dr. Peter Hughes, Director, Internal Audit Department)**

Recommended Action: Receive and File

There were no reportable items on the new year's activities.

Approved as recommended.

8. **External Audit Activity Second Quarter FY 03/04 Status Report (Dr. Peter Hughes, Director, Internal Audit Department)**

Recommended Action: Receive and File

There were no reportable items.

Approved as recommended.

9. **Executive Summaries of Audit Assignments, Period 12/04/03 to 02/26/04 (Dr. Peter Hughes, Director, Internal Audit Department)**

Recommended Action: Receive and File

The summaries detailed the audit recommendations and findings activity between AOC meetings. It also tracked the completion of the reports between AOC meetings. It was reported there was notable decrease in cash loss activity.

Approved as recommended.

10. **Select Chair and Vice Chair -**

Recommended Action: Receive nominations and elect Chair and Vice Chair for 2004

Mr. Sundstrom nominated Dr. David Carlson as Chairman. The nomination was seconded and approved. Dr. Carlson nominated David Sundstrom as Vice Chairman. The nomination was seconded and approved.

11. **Next Meeting**

♦ June 9, 2004, 2:00 p.m. The meeting was reschedule from May 20, 2004.
Agenda Item Suggestions/Action

12. **Public Comments**

None.

13. **Adjournment**

The meeting was adjourned at 2:30 p.m.

Approved 6-9-04, Item 2.